Employment Security Department
WASHINGTON STATE

Study of Corporate Officers

In 2006, ESSB 6885 required the Employment Security Department to study and report on "fraud-prevention methods, such as corporate-officer eligibility for unemployment insurance and personal liability of corporate officers for failure to accurately report employee information or pay taxes owed."

Study parameters

Study examined 2003-05 data

Corporate officers are not required to report their Social Security numbers when they submit their master business application to the Department of Licensing or when they register with the Secretary of State each year. Thus, Employment Security usually does not know if a corporation's officers have filed for unemployment benefits unless that corporation is audited. The department collects and verifies Social Security numbers during the audit.

Given the lack of data on corporate officers among all employers, Employment Security chose to study the 7,647 for-profit corporations that were audited from 2003 through 2005. The audit group did not include corporations that were large (more than 100 employees), new (in business less than five years) or out-of-state. Therefore, the findings cannot be extrapolated to all corporations in Washington.

Key findings

Most states include officers in unemployment coverage

Comparison with other states

- 36 states treat corporate officers as employees. They are automatically covered by unemployment insurance like other workers.
- 14 states have some restrictions on corporate-officer coverage.

Corporate officer claims from audited firms

Most "opted-out" corporate officers awarded benefits upon appeal

- 778 claims were filed by 446 distinct corporate officers; 609 claims were paid.
- 46 percent were from corporations that elected coverage.
  - Of these, 36 percent of paid claims listed the last employer as a corporation that had been granted coverage within the previous 45 days.
- 54 percent were from corporations that had not elected coverage.
  - Of these, 71 percent were paid benefits.
- 37 percent of paid claimants received benefits in more than one year.
- In nearly 25 percent of the claims, the claimant was placed on stand-by by the employer and, thus, was not required to look for work.
- 21 percent of the claims filed by corporate officers were exhausted, which means all money available for those claims was paid.

$5M a year in uncollectible unemploy-ment taxes

Claims paid for uninsured officers

Corporate officers of corporations that do not elect coverage should not be covered by unemployment insurance. However, sometimes the department is not aware that the corporate officers are officers, or officers are granted benefits through the appeals process. The usual reasons these claims are allowed include:

- The corporation did not request coverage and claims it was unaware of the requirement to elect coverage.
- The corporation did not tell the corporate officer that he/she was not covered.
- The corporation reported and paid taxes on its corporate officers although they did not elect coverage.
- Some corporate officers earned wage credits from other employers.

Administrative effects of corporate officer coverage

- During the study period, an average of $675,200 was refunded each year to corporations that did not elect coverage but paid taxes on their corporate officers.
- Each year, Employment Security invests five FTEs worth of time (totaling more than $300,000) on corporate-officer issues.

Other Findings

- Each year, more than 60 corporations applied for and were granted unemployment coverage for their corporate officers within 45 days before closing their accounts.
- On average, more than 1,200 unemployment-tax bills (totaling more than $5 million) are uncollectible each year. These involve corporations that have no resources to pay and Employment Security has exhausted all collection options that are currently allowed under the law.

Contacts

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